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NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of Orders
TG-2-84, TG-3-84 and
TG-4-84 all dated 28 March 1984
and Reasons for Decision
dated 28 March 1984

and

In the Matter of an Application
by Trans Québec & Maritimes Pipeline Inc.
Under Section 17 of the
National Energy Board Act

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The Application

Introduction

The Applicant, Trans Québec & Maritimes Pipeline Inc. (TQM), as mandatary for a partnership consisting of TransCanada PipeLines Limited (TransCanada) and NOVA, AN ALBERTA CORPORATION constructed and operates a pipeline for transmission of natural gas which begins at the point of interconnection with the TransCanada system near St. Lazare, Quebec and ends at a point just west of Quebec City.

TransCanada is currently the only user of the TQM facility. Natural gas transmitted by TQM for TransCanada is sold by TransCanada to TQM at the point of interconnection between TQM and the distributors' facilities. TQM immediately sells the gas to the distributors at the same point.

Being the only shipper on the TQM system, TransCanada is charged the entire toll determined by the Board to be just and reasonable in respect of transmission services rendered by TQM. Charges to TransCanada by TQM are, upon approval by the Board, included in TransCanada's cost of service as a component of "Transmission by Others".

The Application

By application dated 26 August 1983, TQM requested approval of new tolls effective 1 January 1984. The Board set the application down for public hearing commencing 11 January 1984. By Order TGI-4-83, dated 15 November 1983, the Board ordered that the tariff under which TQM operated at the time of the application and the toll which it was authorized to collect would be an interim tariff and an interim toll effective 1 January 1984.

Following the conclusion of the hearing which commenced on 11 January 1984, the Board issued its March 1984 Reasons for Decision and Orders TG-2-84, TG-3-84 and TG-4-84 on 3 May 1984.

By application dated 18 May 1984, TQM applied, pursuant to section 17 of the NEB Act, for a review of a part of the March 1984 Toll Decision. The application is more fully described in the section of this report titled "DECISION". By letter dated 24 May 1984, the Board requested from TQM an update as to the progress the Company had made with regard to the issue of long term debt. The Board indicated that it would appreciate receiving this information before giving consideration to the question of whether it should review the March 1984 Decision as requested in the 18 May 1984 application for review. TQM responded to the Board's letter by letter dated 12 June 1984, advising the Board that it would refrain from issuing any securities until it had received the Board's decision on its application for review.

By letter dated 29 June 1984, the Board advised the Applicant and interested parties that it had decided to proceed to a review on TQM's application. In this letter, interested parties were also advised that the Board would consider their comments on the application, such comments to be received by 13 July. TQM was given until 20 July to reply. The Board also invited comments on an issue that was not raised by TQM in its application, that is the issue of whether the granting of the deferral account requested by TQM would change the risk of the equity holders of the Company, which in turn could require an adjustment to the rate of return on equity allowed in the March 1984 Decision.

On 13 July 1984, having received requests for an extension of the 13 July deadline from the Canadian Petroleum Association/Independent Petroleum Association of Canada and the Alberta Petroleum Marketing Commission, the Board informed the Applicant and all parties by telex that the deadline for interested parties to comment was extended to 20 July, that in addition interested parties would be given until 24 July to comment on submissions made by other interested parties, and that TQM would be given until 31 July to reply to all comments. In response to this telex, representations on TQM's application for review were filed by the following parties:

The Canadian Petroleum Association and Independent Petroleum Association of Canada,
TransCanada PipeLines Limited,
The Alberta Petroleum Marketing Commission,
NOVA, AN ALBERTA CORPORATION,
The Minister of Energy for Ontario,
Gaz Métropolitain, inc.,
le Procureur général du Québec,
Union Gas Limited.

In addition, TQM filed a submission in reply.

Decision

In its application for review, TQM requested that the Board increase the interest rate applicable to the debt component of the Company's capital structure as approved in the Board's March 1984 Reasons for Decision. Specifically, TQM requested that the Board raise the interest rate to be recovered in its monthly tolls from the authorized level of 11 7/8 percent to 12 7/8 percent. In addition, the Company requested that the Board allow for inclusion in future tolls the deferral of fluctuations in the cost of short-term debt based on the Bank of Montreal prime lending rate and the new interest rate so authorized together with carrying charges. Such a deferral account had been requested by TQM in its August 1983 application but denied by the Board in the March 1984 decision.

No additional evidence or argument was presented in respect of TQM's request for a deferral account to accumulate the fluctuations in short-term interest rates, other than the increase in the banks' prime interest rate.

The Board notes that approval of the requested deferral account could have the effect of reducing the level of risk facing TQM's equity holders, which could warrant a change in the authorized rate of return on equity. In this regard, the Board is of the view that, in the present circumstances, it would be inappropriate to consider changing the approved rate of return on equity without undertaking a comprehensive review of all related factors at a public hearing.

Finally, the Board does not consider that the use of a deferral account such as that requested by TQM is consistent with the fixed toll method of regulation that was established for TQM following the Company's first toll hearing. For this reason, the Board is not prepared to sanction the establishment of such a deferral account in the absence of a full discussion of the issue at a public hearing.

Accordingly, the Board denies TQM's request for a deferral account in respect of interest on short-term debt.

In connection with an appropriate rate at which to cost TQM's short-term debt, the Board notes that the Company's cost rate is equivalent to the Bank of Montreal prime lending rate plus five-eighths of one percent¹. In this regard, the Canadian Petroleum Association/Independent Petroleum Association of Canada's expert witness indicated that a rate of 13.5 percent was his best estimate for the prime rate for the balance of 1984. In addition, numerous other forecasts for short-term interest rates

1 In addition, TQM pays a standby fee of .25 percent on the difference between the maximum amount of the loan and the amount outstanding on the loan.

were cited by the Applicant and interested parties, some of which call for increasing rates while others suggest that short-term rates will decline.

Having regard to the rate at which TQM borrows funds with respect to the prime rate, to the various forecasts put forward or referenced with respect to this rate, the standby fee payable by the Company and the fact that the Board has denied the requested deferral account, the Board finds that 14.25 percent is a reasonable rate to be applied to the 75 percent debt component of the Company's approved capital structure.

Based on its findings in this matter and the capital structure and cost rate for equity approved in the March 1984 Reasons for Decision, the Board has decided that a rate of return on rate base of 14.44 percent is fair and reasonable. The derivation of this rate of return is provided as follows:

	Capital Structure (%)	Cost Rate (%)	Cost Component (%)
Debt	75.0	14.25*	10.69
Equity	<u>25.0</u>	15.00	<u>3.75</u>
	<u>100.0</u>		<u>14.44*</u>

The application of this revised rate of return to TQM's average rate base for the test year results in an approved monthly toll of \$7.539 million which is to become effective 1 August 1984. The derivation of this toll is shown in the table below.

Approved Monthly Toll

Effective 1 August 1984

	Authorized by NEB <u>\$(000)</u>
Operating and Maintenance Expenses	782
Depreciation and Amortization	1,355
Taxes Other Than Income Taxes	188
Income Taxes	-
Return on Construction Warehouse	
Inventory and Standby Plant at 7.22%	6
Return on Rate Base at 14.44%	<u>5,208</u>
Approved Monthly Toll	<u>7,539</u>

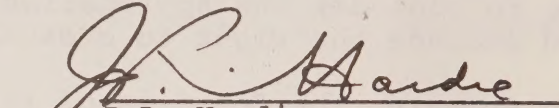
* In the March 1984 Reasons for Decision, a cost rate for debt of 11.875 percent was authorized, resulting in an approved rate of return on rate base of 12.66 percent.

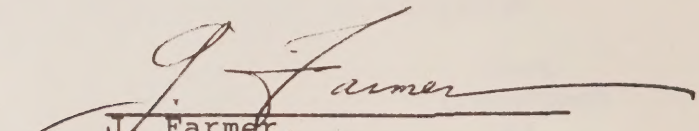
Two parties raised the issue of the Board's jurisdiction to deal with TQM's application for review in the manner outlined in the Board's letter of 29 June 1984 and in its telex of 13 July 1984. The Board is of the opinion that the procedure adopted by it has been fair and proper. Each party has been given equal and ample opportunity to comment on every other party's submission, including a fair opportunity to correct or controvert any relevant and prejudicial statement. In the circumstances of this case, the Board is not convinced of a necessity or a requirement to consider the application in an oral public hearing, which would include the right to cross-examination.

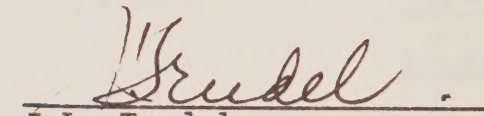
In summary, the Board is of the view that the procedure adopted by it in this case has been both fair and efficient.

Disposition

The foregoing, together with Order No. TG-7-84, shown as Appendix I, constitute our Reasons for Decision and our Decision on the application for review made by Trans Québec & Maritimes Pipeline Inc. pursuant to section 17 of the NEB Act.


J.R. Hardie,
Presiding Member


J. Farmer,
Member


J.L. Trudel,
Member

Ottawa, Canada
August 1984

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. TG-7-84

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Quebec
& Maritimes Pipeline Inc. (hereinafter called
"TQM"), made pursuant to section 17 of the Act,
for a review of a portion of the Board's March
1984 Reasons for Decision, filed with the Board
under File No. 1564-T28-3.

B E F O R E the Board on Thursday, the 9th day of August 1984.

WHEREAS by application dated 18 May 1984 TQM requested,
pursuant to section 17 of the Act, that the Board review, rescind,
change, alter or vary a portion of the Board's 1984 Reasons for
Decision by raising the interest rate to be recovered in TQM's
monthly toll from the authorized level of 11 7/8% to 12 7/8% and
by allowing for inclusion in future tolls the deferral of the
fluctuations in the cost of short term debt based on the Bank of
Montreal prime lending rate and the new interest rate so
authorized, together with carrying charges;

AND WHEREAS the Board has considered TQM's application
and the documents filed in support thereof as well as the
submissions and documents in support filed by interested parties
who wished to comment on TQM's application;

AND WHEREAS the Board is of the opinion that TQM's
request for a deferral account should be denied;

AND WHEREAS the Board is of the opinion that, in order
that the monthly toll that TQM charges for transportation service

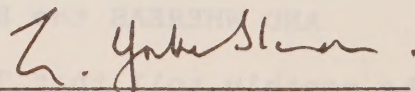
be just and reasonable, the interest rate to be recovered on its short term debt should be raised from the authorized level of 11 7/8% to 14 1/4%;

AND WHEREAS TQM bills TransCanada PipeLines Limited, the only shipper currently using TQM's facilities, on or before the 10th of every month, the authorized monthly toll for services rendered by it during the preceding month;

IT IS ORDERED THAT:

1. TQM's request for a deferral account for toll making purposes in which it would record fluctuations in the cost of short term debt based on the Bank of Montreal prime lending rate and the interest rate on short term debt authorized by the Board for inclusion in the calculation of tolls is hereby denied.
2. TQM shall charge, in respect of its Transportation Service provided to TransCanada PipeLines Limited, a monthly toll of 7.539 million dollars commencing 1 August 1984.
3. TQM shall forthwith file with the Board and serve upon all parties to the hearing held pursuant to Board Order No. RH-4-83, as amended, a revision to its Gas Transportation Tariff incorporating the toll set out in paragraph 2.
4. The monthly toll of 6.896 million dollars authorized in paragraph 1 of Board Order No. TG-2-84 is disallowed, such disallowance to be effective on 31 July 1984.

NATIONAL ENERGY BOARD,



G. Yorke Slader
Secretary

